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C O N F I D E N T I A L SECTION 01 OF 04 MANAGUA 000941

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SUBJECT: NICARAGUAN MICROFINANCE: A SECTOR IN CRISIS

REF: A. MANAGUA 625

[1](#)B. MANAGUA 116

[1](#)C. 08 MANAGUA 1096

[1](#)D. 08 MANAGUA 1032

[1](#)E. 08 MANAGUA 0932

Classified By: Ambassador Robert J. Callahan for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary. Nicaragua's microfinance (MFI) sector, a vital source of finance for economic development, is under siege. A decline in credit availability as a result of the global financial crisis, the continuing and very serious "No Pago" (No Payment) movement, and a drought that is causing some crop failures have combined to present formidable sectoral challenges to MFIs. An embezzlement scandal and high-level political assault on ACODEP, one of Nicaragua's largest MFIs, cast a light on the institutional weaknesses that affect MFIs. While the ruling Sandinista National Liberation Front's (FSLN) interests in the sector remain opaque, we believe they will exploit every opportunity to profit from the current chaos. End Summary.

Nicaraguan Microfinance: An Overview

[1](#)2. (C) There are over 300 microfinance institutions (MFIs) operating in Nicaragua which serve approximately 490,000 clients with a lending portfolio of \$500 million. Over 65% of these clients work in the agricultural sector, the lifeblood of the Nicaraguan economy. MFIs extend credit to the poorest segments of Nicaraguan society, with some loans as low \$100, though a typical loan ranges from \$1,000 to \$5,000. The vast majority of Nicaragua's MFIs are financed by an array of governmental and non-governmental international lenders and donors, including the Overseas Private Investment Corporation (OPIC). While some charitable organizations provide funding to Nicaraguan MFIs on a purely philanthropic basis, the majority are investors who seek financial returns in addition to promoting economic development. The World Bank and the Inter-American Development Bank have both cited the success of MFIs in providing access to financing for Nicaragua's rural poor. Full service Nicaraguan banks have historically concentrated their operations in Managua, making MFIs especially important in the countryside.

Macroeconomic Challenges

[1](#)3. (C) MFIs in Nicaragua, however, currently face a challenging macroeconomic environment. Gabriel Solorzano, President of BANEX (one of Nicaragua's most successful MFIs, now a bank), told econoff on September 1 that Nicaraguan MFIs grew at an astounding rate of 74% from 2005-2008, both in terms of capital and lending portfolios. New MFIs also proliferated during this same period. Solorzano explained that much of this growth was fueled by cheap funds available from overseas as a result of the housing bubble in the United States. MFIs expanded their lending rapidly, stressing their administrative capacities and in some cases leading them to make questionable loans. They were ill-prepared for the effects of the global financial crisis. Remittances from Nicaraguans working abroad (equivalent to 13% of GDP) have dropped by 8% so far in 2009. Underemployment has risen substantially. Further, the Ortega regime, which took power in 2007, decided to directly compete with MFIs through the creation of ALBA-CARUNA (its unofficial rural development bank), with offers of unrealistically low interest rates financed by Venezuelan funds (Ref E).

[1](#)4. (C) Adding to MFI woes is the recent lack of rainfall, vital for the health of the agricultural sector during the most productive harvest season, from September until the end of the rainy season in late October. Since July, inconsistent and below-average precipitation across Nicaragua's agricultural regions threatens to lower yields. Given that the bulk of MFI clients are farmers, crop failures pose a direct risk to their ability to repay loans.

No Pago Movement Closes Operations Across Nicaragua

[1](#)5. (C) Another serious predicament for MFIs here remains the "Movement of Northern Agricultural Producers, Merchants and Wage Earners," better known as the "No Pago" (No Payment) movement. The No Pago movement originated in 2008 under the leadership of Omar Vilchez, a former Sandinista mayor of Jalapa (a town in the northern Department of Nueva Segovia near the Honduran border). Several sources allege that Vilchez fraudulently obtained loans from four different MFIs totaling \$500,000--and he is not eager to repay them. Inspired by President Ortega's verbal assault on MFIs in July 2008, when he labeled them "usurious lenders" and "banking terrorists" supported by "imperialist Yankees," Vilchez began

organizing protests, many of them violent, on the premises of MFIs throughout northern Nicaragua (ref E). A representative of FAMA, a major Nicaraguan MFI, told econoff on September 9 in Jinotega that Vilchez created, in effect, his own political movement; for example, he charges No Pago members monthly dues of \$15 in order to fund transportation and provide meals to protesters.

¶6. (C) The northern regional manager for Banco ProCredit told econoff that many No Pago members are former Contra fighters and Sandinista guerillas from the 1980s who are well-armed, dangerous and experienced in sabotage operations. Of course, others are simply debtors who do not wish to pay their bills. These same MFI representatives in Jinotega reported that the Nicaraguan National Police (NNP) fear the members of the No Pago movement. Local press reports estimate that the size of the No Pago membership is now well over 10,000.

¶7. (C) Since July 2008, the No Pago movement has set fire to MFI offices in Ocotal and Jalapa, has kidnapped branch managers and MFI employees in several towns in northern Nicaragua, and has prevented customers from doing business with MFIs by physically barricading premises. On September 11, 2009, No Pago members in Matagalpa held 200 employees and customers captive in a local branch of the Fund for Local Development, a prominent MFI, and threatened to set the branch on fire with gasoline. On September 2, the No Pago movement physically prevented employees of BANPRO, Nicaragua's largest bank, from entering or exiting their respective branches in Rio Blanco and Sebaco. BANEX's Solorzano told econoff that death threats have been made against Julio Flores, the General Manager of the Nicaraguan Association of Microfinance Institutions (ASOMIF). None of these actions has resulted in arrests or prosecution by the NNP. Consequently, since September 5, almost all major MFIs (and even some major bank branches) have been closed for business in Ocotal, Jalapa, Rio Blanco, Sebaco, Esteli, El Rama, Nueva Guinea, and Juigalpa.

¶8. (C) On September 22, twenty five major international providers of credit to Nicaraguan MFIs published full-page announcements in both daily newspapers calling on the GON to curb the No Pago's violent actions. They threatened to withdraw funds should this unacceptable situation continue. Rene Gonzales, General Manager of the Nicaraguan Development Finance Agency (a local MFI), told econconcous recently that members of the No Pago movement are coercing good clients not to pay their debts. According to data from ASOMIF, default rates among Nicaraguan MFIs have risen from 3.7% in June 2008 to 8.7% in June 2009.

Debt Moratorium

¶9. (C) No Pago's Vilchez is demanding that the Nicaraguan National Assembly pass a so-called Moratorium Law, which would grant a 180 day inter

The ACODEP Affair

¶10. (C) As if the No Pago movement, the global financial crisis, and a drought do not pose sufficient challenges, the Nicaraguan microfinance sector is also grappling with a major embezzlement scandal and political assault on the Association for the Development of Small, Medium and Micro Businesses (ACODEP), one of the country's largest MFIs (Ref A). Since early 2008, ACODEP has been caught up in a nasty dispute over control of its Board of Directors. In 2008, ACODEP's Board removed Armando Garcia from his position as president for embezzlement and poor lending decisions. In retribution, Mr. Garcia exploited his senior-level GON contacts to have himself "legally" reinstated as president for a two-month period in 2009. During these two months, according to the current Board and its international creditors, he swindled \$3 to \$5 million from ACODEP. ACODEP subsequently filed a criminal complaint against Garcia with Police's Economic Crimes Division. ACODEP finally succeeded in removing Garcia in late May 2009 by obtaining official recognition from the Ministry of Interior of their newly-constituted Board, but the financial damage done to ACODEP as a result of this alleged embezzlement has been catastrophic; one U.S. creditor recently described ACODEP as a "zombie company."

¶11. (C) Most disturbingly, on September 4, Garcia attempted an armed takeover of ACODEP's Managua headquarters, holding its employees and customers hostage for more than two hours, an event broadcast live on one of Nicaragua's major television news channels.

Enter Rosario

¶12. (C) Amidst the current chaos, several sources have told econoff that First Lady Rosario Murillo is making a play to take over ACODEP. Marta Elena Espinoza, the wife of Leonardo Torrez, a close advisor to the First Lady, has been appointed to the board. The local press has reported similar accounts. BANEX's Solorzano speculated that Murillo's chief motivation is the desire to acquire ACODEP's 57,000 client base, along with ACODEP's 40 nationwide branches. Such a move, according to Solorzano, would allow the FSLN to win over ACODEP borrowers in arrears by offering them low interest loans funded by ALBA-CARUNA.

Comment

¶13. (C) Solorzano's view concerning the First Lady's role in ACODEP is plausible. Since his inauguration in 2007, President Ortega and the FSLN have eagerly sought to enter the MFI business, primarily via ALBA-CARUNA. This effort has largely been a failure, attracting few clients. Gaining control of one of the already existing largest MFIs would provide a perfect platform for the FSLN to seize a significant portion of the market.

¶14. (C) On the No Pago movement, the FSLN's position has been difficult to decipher, though it appears that these violent protests occur with

CALLAHAN